

**OTTAWA COUNTY RURAL WATER DISTRICT NO. 2  
SALINA, KANSAS**

**FINANCIAL STATEMENTS WITH  
INDEPENDENT AUDITORS' REPORT**

**For Years Ended December 31, 2009 and 2008**

**OTTAWA COUNTY RURAL WATER DISTRICT NO. 2  
SALINA, KANSAS**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Ottawa County, Kansas  
Rural Water District No. 2  
Salina, Kansas 67402

We have audited the financial statements of Ottawa County Rural Water District No. 2, as of and for the years ended December 31, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit Guide*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ottawa County Rural Water District No. 2, as of December 31, 2009 and 2008 and the results of operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on page 2 and the budget report on page 11 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted by the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However we did not audit the information and express no opinion on it.

*Pottberg, Gassman & Hoffman, Chartered*

POTTBERG, GASSMAN & HOFFMAN, CHARTERED

Manhattan, Kansas  
June 21, 2010

MEMBERS:  
American Institute of  
Certified Public Accountants

Kansas Society of Certified  
Public Accountants



## **OTTAWA COUNTY RURAL WATER DISTRICT NO. 2**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Within this section of the Ottawa County Rural Water District No. 2's annual financial report, the District's management provides narrative discussion and analysis of the financial activities of the District for the year ended December 31, 2009. The District's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

In 2009, the district added six (6) units, making a total of 854 units. In 2009 the annual usage was 56,400,000 gallons of water, which showed an annual loss of 13.54%. Since we are a customer read district, the Board of directors has implemented a policy that a staff member will read all the meters once a year and whenever necessary to help maintain a reasonable yearly percentage loss. In 2009, the employee that reads the meters annually was gone serving in Iraq so the District read them on a needed basis. The district continually communicates with customers to keep the accounts receivable to a minimum.

The Business Manager prepared the 2010 annual budget, as required by the BYLAWS of the District (see Article 8, Powers and Duties of Directors. Paragraph G), and it was adopted by the Board. After preparing the annual budget for 2010, the water district was in compliance with the bond covenants and the rates for water and minimum charge were sufficient to maintain the required debt service ratio.

The district has enough money in certificates of deposit designated to pay for the interest and principle on bonds in 2010 and the final payment in 2011.

The Assistant Operator attended an 18 week potable water operations and maintenance course and obtained an operator's certificate.

The ongoing attempt to develop a well field in the west half of Section 4, Township 12, Range 3 west was taken out of eminent domain and taken to a mediation meeting with the landowner. The payment for the easements was agreed upon and the contract was signed. An extension of time was prepared because the end of the year was near.

The water district is always pursuing new sources of water. We are in the process of obtaining a temporary easement and option to purchase with a land owner.

The Master Plan of the district and the constant low pressure in the Central and Southern part of the District indicated the districts demand for a new water tower. At the February 23, 2009 the Board voted to proceed with the engineering and construction of a 200,000 gallon water tower to replace the existing standpipe on Country Club Road. The district purchased Series B, 2009 Revenue Bonds in the amount of \$885,000 to fund the water tower.

The Board accepted the estimate of \$12,997 from the Kansas Rural Water Association for GIS mapping Assistance Program. The grant funding from the Kansas Water Office would be half or not to exceed \$4,000. The GIS mapping was started in 2009 but the maps will be completed in 2010.

All the substantial interest statements were completed and returned to the district.

The water district has an emergency disaster plan and a conservation plan in effect.

Should you have any questions concerning this report or any other water district matter, feel free to call 785.823.2093.

**OTTAWA COUNTY RURAL WATER DISTRICT NO. 2**  
**STATEMENTS OF NET ASSETS**  
**DECEMBER 31,**

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
Current Assets		
Cash in Bank	\$ 861,992	\$ 920,031
Accrued Interest Receivable	-	31,422
Accounts Receivable - Net	5,315	5,539
Inventory	22,081	18,986
Prepaid Expenses	833	-
Total Current Assets	<u>890,221</u>	<u>975,978</u>
Noncurrent Assets		
Capital Assets		
Engineering Costs	132,970	72,840
Office Equipment	25,247	25,247
Property Easements	9,368	9,368
Property Easements well 5 6 7	43,920	-
Standpipe Easements	4,500	4,500
Water Transmission and Distribution System	3,581,298	3,542,105
Water Wells and Easements	36,369	36,369
New Well Project	28,587	28,587
Accumulated Depreciation	<u>(1,751,953)</u>	<u>(1,651,685)</u>
Total Capital Assets	2,110,306	2,067,331
Bond Issuance & Discount Costs - 2001 (net of accumulated amortization of \$29,267 and \$25,646)	6,940	10,561
Bond Issuance Costs - 2004 (net of accumulated amortization of \$4,764 and \$3,857)	13,386	14,293
Bond Issuance Costs - 2009 (net of accumulated amortization of \$69)	16,643	-
2004 Bond Proceeds	487,328	484,898
Certificate of Deposit - 2001 Bond Reserve	254,547	244,099
Certificate of Deposit - 2004 Bond Reserve	94,518	78,000
Certificate of Deposit - 2009 Bond Reserve	78,563	-
2009 Bond Proceeds	<u>775,052</u>	<u>-</u>
Total Noncurrent Assets	<u>3,837,283</u>	<u>2,899,182</u>
<b>TOTAL ASSETS</b>	<u><b>\$4,727,504</b></u>	<u><b>\$3,875,160</b></u>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts Payable	\$ 255	\$ -
Accrued Interest Payable	12,887	14,476
Payroll Liabilities	1,213	1,049
Deferred Revenue	63,682	65,388
Bonds Payable - Current Portion	<u>165,000</u>	<u>155,000</u>
Total Current Liabilities	<u>243,037</u>	<u>235,913</u>
Noncurrent Liabilities		
Bonds Payable - 2001 Bond Issue (less current portion of \$165,000 and \$155,000)	215,000	380,000
Bonds Payable - 2004 Bond Issue	780,000	780,000
Discount on 2004 Bonds (net of accumulated amortization of \$3,890 and \$3,149)	(10,930)	(11,671)
Bonds Payable - 2009 Bond Issue	885,000	-
Discount on 2009 Bond (net of accumulated amortization of \$64)	<u>(15,423)</u>	<u>-</u>
Total Noncurrent Liabilities	<u>1,853,647</u>	<u>1,148,329</u>
<b>Total Liabilities</b>	<u><b>2,096,684</b></u>	<u><b>1,384,242</b></u>
Net Assets		
Invested in Capital Assets, net of related debt	91,659	764,002
Restricted 2001 Bond Reserve	148,500	148,500
Restricted 2004 Bond Reserve	78,000	78,000
Restricted 2009 Bond Reserve	78,563	-
Unrestricted	<u>2,234,098</u>	<u>1,500,416</u>
Total Net Assets	<u>2,630,820</u>	<u>2,490,918</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><b>\$4,727,504</b></u>	<u><b>\$3,875,160</b></u>

The notes to the financial statements are an integral part of this statement.

**OTTAWA COUNTY RURAL WATER DISTRICT NO. 2**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED DECEMBER 31,**

	<u>2009</u>	<u>2008</u>
<b>OPERATING REVENUES</b>		
Water Sales	\$ 445,444	\$ 447,342
<b>OPERATING EXPENSES</b>		
Accounting Fees	5,620	5,873
Attorney Fees	3,132	7,734
Chlorine Fees	5,555	6,361
Clean Drinking Water Fees	1,680	1,751
Contract Wages	51,753	50,219
Dues and Subscriptions	675	927
Easements	48	-
Insurance	9,787	15,709
Internet Fee	560	528
IRA Contributions	1,748	1,042
Lab Fees	524	699
Mileage	16,870	6,908
Miscellaneous	2,334	2,376
Office Supplies Expense	4,574	4,051
Payroll Taxes	4,810	3,655
Power	23,786	26,028
Professional Fees	2,230	3,325
Repairs and Maintenance	17,577	17,316
Salaries and Wages	62,878	47,776
Supplies Expense	3,995	2,612
Telephone	6,863	6,385
Water Protection Fees	1,792	1,867
<b>TOTAL OPERATING EXPENSES</b>	<u>228,791</u>	<u>213,142</u>
<b>INCOME FROM OPERATIONS BEFORE</b>		
<b>AMORTIZATION AND DEPRECIATION</b>	216,653	234,200
Amortization	(5,403)	(5,269)
Depreciation	<u>(100,268)</u>	<u>(97,057)</u>
<b>OPERATING INCOME (LOSS)</b>	<u>110,982</u>	<u>131,874</u>
<b>NON-OPERATING REVENUES AND EXPENSES</b>		
Interest Income	39,213	64,090
Other Income	14,643	20,367
Interest Expense	<u>(53,136)</u>	<u>(59,402)</u>
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<u>720</u>	<u>25,055</u>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS</b>	<u>111,702</u>	<u>156,929</u>
Capital Contributions	<u>28,200</u>	<u>17,800</u>
<b>CHANGE IN NET ASSETS</b>	<u>139,902</u>	<u>174,729</u>
<b>NET ASSETS, BEGINNING</b>	<u>2,490,918</u>	<u>2,316,189</u>
<b>NET ASSETS, ENDING</b>	<u><u>\$ 2,630,820</u></u>	<u><u>\$ 2,490,918</u></u>

The notes to the financial statements are an integral part of this statement.

**OTTAWA COUNTY RURAL WATER DISTRICT NO. 2**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31,**

	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash Received from Customers	\$ 443,962	\$ 456,063
Cash Payments to Suppliers for Goods and Services	(99,715)	(95,586)
Cash Payments to Employees and Professional		
Contractors for Services	(132,585)	(119,408)
Net Cash Provided (Used) by Operating Activities	<u>211,662</u>	<u>241,069</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED</b>		
<b>FINANCING ACTIVITIES:</b>		
Acquisition and Construction of Capital Assets	(143,243)	(39,778)
Principal Paid on Bonds	(155,000)	(150,000)
Interest Paid on Bonds	(54,725)	(60,902)
Proceeds from Bond Issue	107,518	(9,406)
Issuance and Discount on Bonds	(32,200)	-
Bond Reserve Decrease (Increase)	(105,529)	(42,890)
Other Capital Activities	14,643	20,367
Capital Contributions	28,200	17,800
Net Cash Provided (Used) by Capital and Related		
Financing Activities	<u>(340,336)</u>	<u>(264,809)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment Income	<u>70,635</u>	<u>42,801</u>
Net Cash Provided (Used) by Investing Activities	<u>70,635</u>	<u>42,801</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	(58,039)	19,061
Cash and Cash Equivalents at January 1	920,031	900,970
Cash and Cash Equivalents at December 31	<u><u>\$ 861,992</u></u>	<u><u>\$ 920,031</u></u>
 <b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Income from Operations	\$ 216,653	\$ 234,200
Changes in Receivables	(609)	1,251
Changes in Inventory	(3,095)	(2,068)
Changes in Payables	419	216
Changes in Deferred Revenue	(1,706)	7,470
Net Cash Provided by Operating Activities	<u><u>\$ 211,662</u></u>	<u><u>\$ 241,069</u></u>

The notes to the financial statements are an integral part of this statement.

**OTTAWA COUNTY RURAL WATER DISTRICT NO. 2  
SALINA, KANSAS**

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 1 - ORGANIZATION DESCRIPTION AND ACCOUNTING POLICIES**

The Rural Water District No. 2, Ottawa County, Kansas, was declared incorporated as a municipal Corporation by the Board of Commissioners of Ottawa County, Kansas. The board of directors for the district adopted bylaws at a meeting of the landowners of the district on June 11, 1979.

**Basis of Accounting**

The District's financial information is reported on the accrual basis of accounting, in conformity with accounting principles generally accepted in the United States of America. The District performs proprietary activities and therefore is subject to all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and Accounting Principles Board (APB) opinions that do not conflict with or contradict GASB pronouncements.

**Cash and Cash Equivalents**

All bank deposit accounts, money market accounts and certificates of deposit classified as current assets are determined to be cash and cash equivalents. Certificates of deposit with maturities of longer than three months can still be used by the district to meet current liabilities if they wish to pay any applicable penalties.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Capital Assets**

Capital assets purchased are capitalized at cost. Depreciation is recorded based on the estimated useful life of each asset using the straight-line method. The District's policy is to capitalize all assets with a cost of \$500 or more and a useful life exceeding one year.

**Inventory**

Inventory is stated at cost and consists of pipe, valves, meters, and other items needed to repair water lines.

**Non-operating Revenue**

All revenue, other than payments for water sales, is considered non-operating. Installation fees and reimbursements from benefit units make up part of these funds.

**NOTE 2 – DEPOSITORY SECURITY**

K.S.A. 9-1402 requires the District to obtain security in the amount of one hundred percent of deposits that exceed FDIC or FSLIC insurance coverage prior to depositing any public monies in any state bank, national bank, or savings and loan institution. As of December 31, 2009 and 2008, all deposits were adequately insured or collateralized with securities held by the deposit bank's agent in the district's name.

**OTTAWA COUNTY RURAL WATER DISTRICT NO. 2  
SALINA, KANSAS**

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 2 – DEPOSITORY SECURITY continued**

The following is a comparison of depository security with balances on deposit with the District's designated depositories:

	<u>Demand Deposits on 12/31/2009</u>	<u>Time Deposits on 12/31/2009</u>	<u>FDIC Coverage</u>	<u>Pledged Securities</u>	<u>Unsecured Deposits</u>
Bennington State Bank	\$80,319	\$310,986	\$250,000	\$141,305	-
Bank of Tescott	-	492,040	250,000	242,040	-
Great Plains FCU	1,803	-	1,803	-	-
Bank VI	-	138,789	138,789	-	-
United Bank & Trust	1,262,380	-	250,000	1,012,380	-
First Bank Kansas	-	94,517	94,517	-	-
Security Savings	-	233,742	233,742	-	-

**NOTE 3 – ACCOUNTS RECEIVABLE**

Accounts receivable are customer water bills that have been invoiced but remain unpaid. The balance is shown net of the allowance for doubtful accounts. Using past payment history and the aging report, the allowance as of December 31, 2009 and 2008 has been determined to be zero.

**NOTE 4 – CAPITAL ASSETS**

During 2004 the District's infrastructure assets were estimated using expenditures of prior years and are stated retrospectively. The water distribution system is being depreciated over 40 years.

<u>Balance 1-1-09</u>	<u>Accum Depr</u>	<u>Purchases</u>	<u>Disposals</u>	<u>Depreciation</u>	<u>Balance 12-31-09</u>
<u>\$3,719,016</u>	<u>(\$1,651,685)</u>	<u>\$143,243</u>	<u>(\$0)</u>	<u>(\$100,268)</u>	<u>\$2,110,306</u>

**NOTE 5 – DEFERRED REVENUE**

Multiple District customers have paid in advance for water usage. These amounts have not been earned and would be refundable if water usage discontinues. The balance of these customer credits was \$63,682 at December 31, 2009 and \$65,388 at December 31, 2008.

**NOTE 6 – BONDS PAYABLE**

On December 1, 2001, the district issued \$1,485,000 in Kansas Rural Water Finance Authority Revenue Bonds, Series B, 2001 with effective interest rates ranging from 2.50% to 4.75% to refund their Kansas Rural Water Finance Authority Revenue bonds, Series C, 1996 in the amount of \$1,455,000. Interest payments are due semi-annually on October 1 and April 1. Principal payments are due on April 1 maturing in 2011.

On August 1, 2004, the district issued \$780,000 in Kansas Rural Water Finance Authority Revenue Bonds, Series C, 2004 with effective interest rates ranging from 3.85% to 5.00%. The purpose of the bond issue was to construct a second main under I-70 (completed in 2005), develop a new well (completed in 2007) and construct a new chlorination building as well as remodel the existing chlorination building. Work has not yet begun on the chlorination buildings.

**OTTAWA COUNTY RURAL WATER DISTRICT NO. 2  
SALINA, KANSAS**

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 6 – BONDS PAYABLE, continued**

Interest payments are due semi-annually on April 1 and October 1. Principal payments are due starting on October 1, 2012 and maturing in 2024.

On December 1, 2009, the district issued \$885,000 in Kansas Rural Water Finance Authority Revenue Bonds, Series B, 2009 with effective interest rates ranging from 1.75% to 4.75%. The purpose of the bond issue is to purchase a water tower. Interest payments are due semi-annually on June 1 and December 1. Principal payments are due starting on December 1, 2010 and maturing in 2029.

**2001 Bonds Payable Information:**

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2010	\$165,000	\$12,602	\$177,602
2011	215,000	4,569	219,569
Totals	<u>\$380,000</u>	<u>\$17,171</u>	<u>\$397,171</u>

Issuance costs of \$23,912 were paid at the time this revenue bond was issued in 2001. This cost was capitalized and is being amortized over the life of the revenue bonds using the straight-line method. Amortization for 2009 and 2008 was \$2,391 each year. The bonds were issued at a discount of \$12,295 which is amortized over the life of the bonds using the straight-line method. Amortization for 2009 and 2008 was \$1,230 each year. A bond reserve account of \$148,500 is required to be maintained. Four certificates of deposit, one at Bennington State Bank in the amount of \$35,964, two at Bank of Tescott in the amounts of \$42,176 and \$149,419, and one at Bank VI in the amount of \$26,988, totaling \$254,547 are designated as bond reserve.

**2004 Bonds Payable Information:**

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2010	-	35,480	35,480
2011	-	35,480	35,480
2012	\$50,000	35,480	85,480
2013	50,000	33,555	83,555
2014	50,000	31,555	81,555
2015-2019	270,000	125,360	395,360
2020-2024	<u>360,000</u>	<u>55,320</u>	<u>415,320</u>
Totals	<u>\$780,000</u>	<u>\$352,230</u>	<u>\$1,132,230</u>

Issuance costs of \$18,150 were paid at the time this revenue bond was issued. The cost was capitalized and is being amortized over the life of the revenue bonds, using the straight-line method. Amortization for 2009 and 2008 was \$907 each year. The bonds were issued at a discount of \$14,820 which is amortized over the life of the bonds using the straight-line method. Amortization for 2009 and 2009 was \$741 each year. A bond reserve account of \$78,000 is required to be maintained. \$94,518 is segregated as a Certificate of Deposit at First Bank Kansas.

**OTTAWA COUNTY RURAL WATER DISTRICT NO. 2  
SALINA, KANSAS**

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 6 – BONDS PAYABLE, continued**

**2009 Bonds Payable Information:**

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2010	-	35,450	35,450
2011	-	35,450	35,450
2012	\$30,000	35,450	65,450
2013	35,000	34,850	69,850
2014	35,000	34,045	69,045
2015-2019	200,000	153,015	353,015
2020-2024	255,000	109,915	364,915
2025-2029	<u>330,000</u>	<u>48,295</u>	<u>378,295</u>
Totals	<u>\$885,000</u>	<u>\$486,470</u>	<u>\$1,371,470</u>

Issuance costs of \$16,712 were paid at the time this revenue bond was issued. The cost was capitalized and is being amortized over the life of the revenue bonds, using the straight-line method. Amortization for 2009 was \$69. The bonds were issued at a discount of \$15,487 which is amortized over the life of the bonds using the straight-line method. Amortization for 2009 was \$64. A bond reserve account of \$78,563 is required to be maintained. This amount is segregated as a Certificate of Deposit at Bennington State Bank.

**NOTE 7 – DEBT SERVICE RATIO**

The bond issue covenants require the District to maintain a debt service ratio of at least 1.25.

Debt Service Ratio Calculation for the  
year ending:

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Change in Net Assets	\$139,902	\$174,729
Interest Expense	53,136	59,402
Amortization & Depreciation	105,671	102,326
Less Capital Contributions	<u>(28,200)</u>	<u>(17,800)</u>
Total Revenue Available for Debt Service	<u>\$270,509</u>	<u>\$318,657</u>
Debt Service Payments	\$209,725	\$210,602
Debt Service Ratio	<u>1.29</u>	<u>1.51</u>

**NOTE 8 – LONG TERM DEBT SCHEDULE**

The following schedule shows the changes in long-term debt and related maturities.

<u>Revenue Bonds</u>	<u>Date Issued</u>	<u>Original Amount</u>	<u>Outstanding 01-01-09</u>	<u>Principal Payments</u>	<u>Outstanding 12-31-09</u>	<u>Interest Paid In 2009</u>
2001	12-01-01	\$1,485,000	\$535,000	\$155,000	\$380,000	\$19,245
2004	08-01-04	780,000	780,000	-	780,000	35,480
2009	12-01-09	<u>\$885,000</u>	<u>885,000</u>	<u>-</u>	<u>\$885,000</u>	<u>-</u>
Total Indebtedness		<u>\$3,150,000</u>	<u>\$2,200,000</u>	<u>\$155,000</u>	<u>\$2,045,000</u>	<u>\$54,725</u>

**OTTAWA COUNTY RURAL WATER DISTRICT NO. 2  
SALINA, KANSAS**

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 9 – BUDGETS AND BUDGETARY ACCOUNTING**

The District is not required to adopt a legal budget; therefore, no budgetary comparison is prepared as a financial statement. The Board approves a budget each year, which is used by management to internally monitor the District's expenditures and is presented as supplementary information.

**NOTE 10 - RETIREMENT PLAN**

The district provides a Simple IRA for the full time employees as retirement compensation. The District contributes 3% of the employees' wages to these IRAs. In 2009, the District contributed \$1,748 and in 2008, \$1,042 to the retirement plan. The IRAs are with American Funds.

**NOTE 11 - COMPENSATED ABSENCES POLICY**

The District provides vacation leave for the Business Manager. There is no written policy for the carry forward of unused time nor for the payment of unused time at termination or retirement. Therefore no accrual has been made.

**NOTE 12 - LITIGATION**

As of December 31, 2009 Ottawa County Rural Water District No. 2 is not involved in any litigation matters or legal actions.

**NOTE 13 – RELATED PARTIES**

All the members of the board of directors are water district customers. The only material transactions were water purchases consummated on the same terms as all other water customers.

**NOTE 14 – RISK MANAGEMENT**

Ottawa County Rural Water District No. 2 is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To insure against risk of these types of losses, the District has purchased commercial insurance coverage from EMC Companies through Anderson Peck Agency Inc. in Topeka, Kansas. Settled claims resulting from these risks have not exceeded commercial coverage.

**OTTAWA COUNTY RURAL WATER DISTRICT NO. 2**  
**BUDGET REPORT - CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>OPERATING REVENUES</b>			
Water Revenues	<u>\$ 465,132</u>	<u>\$ 443,962</u>	<u>\$ (21,170)</u>
<b>OPERATING EXPENSES</b>			
Chlorine Fee	6,400	5,555	845
Clean Drinking Water Fee	1,920	1,680	240
Contract Wages	60,000	51,753	8,247
Easements	-	48	(48)
Dues and Subscriptions	650	675	(25)
Insurance	11,500	9,787	1,713
Internet Fee	-	560	(560)
IRA Contributions	1,700	1,748	(48)
Lab Fees	-	524	(524)
Mileage	14,000	16,870	(2,870)
Miscellaneous	22,400	2,334	20,066
Office Supplies Expense	4,500	4,574	(74)
Payroll Taxes	4,000	5,479	(1,479)
Power	26,000	23,786	2,214
Professional Fees	18,000	10,982	7,018
Repairs and Maintenance	10,000	20,417	(10,417)
Salaries & Wages	60,000	62,878	(2,878)
Supplies Expense	2,600	3,995	(1,395)
Telephone	6,400	6,863	(463)
Water Protection Fee	2,000	1,792	208
<b>TOTAL OPERATING EXPENDITURES</b>	<u>252,070</u>	<u>232,300</u>	<u>19,770</u>
<b>DEBT RETIREMENT:</b>			
Bond Principal Paid	155,000	155,000	-
Bond Interest	59,402	54,725	4,677
<b>TOTAL EXPENDITURES</b>	<u>466,472</u>	<u>442,025</u>	<u>24,447</u>
<b>OTHER INCOME (EXPENSES)</b>			
New Benefit Units	32,000	28,200	(3,800)
Interest Income	60,000	70,635	10,635
Other Income and Expense	26,500	(15,568)	(42,068)
Capital Improvements	(629,753)	(143,243)	486,510
<b>TOTAL OTHER INCOME (EXPENSE)</b>	<u>(511,253)</u>	<u>(59,976)</u>	<u>451,277</u>
<b>INCREASE (DECREASE) IN CASH</b>	<u>(512,593)</u>	<u>(58,039)</u>	<u>454,554</u>

The notes to the financial statements are an integral part of this statement.